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Farm-Mortgage Lending

U. S. DEPT. OF AGRICULTURE
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Experience of 20 Life Insurance Companies,
Federal Land Banks, and
Farmers Home Administration

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CURRENT SERIAL RECORDS

Farm Production Economics Division, Economic Research Service, USDA

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Farm mortgage loans made by the three reporting lender groups 1/ continued to rise in the first half of 1966. Farm mortgage lending of the two largest lender groups--the life insurance companies and the Federal land banks--increased, while direct loans made by the Farmers Home Administration declined. Loans insured by the Farmers Home Administration--not included in the Farmers Home Administration direct loan figures in this report--increased.

The volume of new money loaned by reporting life insurance companies and Federal land banks for the first 6 months of 1966 was \$1,223 million, compared with \$1,034 million for the corresponding period of a year earlier--an increase of \$189 million or 18 percent. For the first half of 1965 the increase over the corresponding period of 1964 had been \$173 million or 20 percent.

New money loaned by the life insurance companies in the first half of 1966 increased 13 percent over a year earlier (table 1), compared with an increase of 24 percent in new money loaned by the Federal land banks (table 4). Direct loans of the Farmers Home Administration totaled \$19 million for the first half of 1966 (table 6), which was sharply below the \$92 million loaned for the comparable period in 1965.

Repayment rates on farm mortgage loans held by the Federal land banks and the reporting life insurance companies were slightly lower in the first half of 1966 than in the first half of 1965, whereas the repayment rate on FHA loans was slightly higher.

As of June 30, 1966, the total amount of outstanding loans held by the three reporting lender groups was 13.4 percent higher than a year earlier--\$10.6 billion compared with \$9.3 billion.

Interest rates increased in the first half of 1966. Rates charged on farm mortgage loan commitments by life insurance companies average 6.02 percent, compared with 5.82 percent for the last half of 1965 and 5.74 percent for the first half of 1965 (table 3). Seven of the Federal land banks increased rates charged during the 6-month period ending June 30, 1966, to 6.00 percent--six

1/ 20 life insurance companies, the Federal land banks, and the Farmers Home Administration (direct loans to individuals).

from 5.50 percent, and one from 5.20 percent. One raised rates charged from 5.00 percent to 5.50 percent. The remaining four continued to charge 5.50 percent (table 5). However, all 12 banks were charging 6.00 percent by September 16, 1966. Preliminary third-quarter data show an average interest rate on new life insurance farm mortgage loan commitments of 6.47 percent.

Life Insurance Companies

In the first half of 1966, the volume of new money loaned on farm mortgages by the 20 reporting life insurance companies, \$606 million, was 13 percent larger than for the comparable period of 1965. The \$537 million of new money loaned for the first half of 1965 was 6 percent higher than for the comparable period of 1964.

The average size of the new loans made by life insurance companies in the first half of 1966 was \$45,520--up 27 percent from a year earlier. Repayments were equal to 6.3 percent of loans outstanding December 31, 1965--slightly lower than the rate of 6.6 percent a year earlier.

The volume of loans outstanding on June 30, 1966, was 7.1 percent higher than on December 31, 1965. The increase for the first 6 months of 1965 was 6.7 percent.

The number of farm mortgages with interest overdue more than 3 months on June 30, 1966, was 0.2 percent of the total number of loans outstanding, compared with 0.3 percent on June 30, 1965.

Mortgage loan commitments during the period were \$618 million, compared with \$614 million a year earlier--an increase of 0.8 percent. However, within the 6-month period there was a significant decline in the commitments made in the last half of the period compared with the first half. There is usually a seasonal decline from the first quarter to the second quarter of the year--this decline averaged 14 percent for the 6-year period 1960 through 1965. The 1966 second-quarter commitments of \$215 million were 47 percent below the first-quarter commitments of \$404 million.

Preliminary data for third-quarter 1966 commitments by life insurance companies indicate a continuation of the sharp drop of the second quarter. There was an average seasonal drop of 7 percent in the third quarter from the second quarter level in 1960-65. The third-quarter 1966 preliminary volume of commitments of \$138 million was 36 percent below the second quarter.

The portion of loan commitments for refinancing in the first half of 1966 was smaller than it had been a year earlier--44.4 percent compared with 49.0 percent; the portion of loan commitments for farm real estate purchases increased from 34.9 percent to 39.6 percent (table 2).

Federal Land Banks

The volume of new money loaned by the Federal land banks in the first half of 1966, \$616 million, was \$119 million higher than the volume loaned in the first half of 1965. However, the increase was not as large as the unusually sharp expansion of lending for the first half of 1965. In that

period the loan volume was \$141 million higher than in the first half of 1964. The volume of new money loaned in second-quarter 1966 was \$316 million, compared with \$300 million in the first quarter. In other recent years the volume of new money loaned by the Federal land banks was lower in the second calendar quarter than in the first quarter.

The total volume of loans (including new loans which replaced old loans as well as new money) by the Federal land banks in the first half of 1966 was \$827 million, an increase of 20 percent over the first half of 1965. The average size of loans made during the period increased 15 percent over the average size of loans a year earlier.

Repayments on outstanding loans represented 4.0 percent of unpaid principal, a slight decrease from the 4.1 percent rate of repayment for the last half of 1965 and 4.2 percent for the first half of 1965.

The decrease in rate of repayment is a continuation of the downtrend which started in the last half of 1964 when the rate decreased to 4.3 percent from 4.5 percent for the first half of 1964.

For the first 6 months of 1966, 2.9 percent of the total number of FLB loans were delinquent or extended, compared with 3.2 percent for the same period of 1965 and 3.4 percent for 1964. The number called for foreclosure decreased significantly--101 for the first half of 1966 compared with 139 for the comparable period of 1965 and 238 for the comparable period of 1964.

Farmers Home Administration

Activity of the Farmers Home Administration in the field of direct farm mortgage lending declined sharply during the first half of 1966. Mortgages acquired (including increases) totaled \$19.0 million, 79.5 percent less than the volume of \$92.4 million acquired for the same period in 1965.

The number of loans behind schedule in payments remained at 4.1 percent, as in the first half of 1965. The number of loans in process of foreclosure increased to 89 from 74 for the first 6 months in 1965.

The portion of loan commitments for repairs and improvements increased to 28 percent from 20 percent for the first half of 1965, while the portion for real estate purchases declined 2 percent and for refinancing 6 percent. There was no change in the interest rate for farm-ownership and rural-housing loans, which continued at 5 percent and 4 percent, respectively.

The decline in direct farm-ownership and rural-housing mortgage lending by FHA noted above was offset in part by increased volume of insured FHA farm mortgage loans to individuals--mostly farm-ownership loans. FHA rural-housing loans are also now made on the insured basis. The volume of FHA insured farm-ownership loans outstanding as of June 30, 1966--\$905 million--was \$89 million higher than on December 31, 1965, and \$166 million higher than the June 30, 1965, volume. The increase for the 12-month period ending June 30, 1965, was \$101 million.

The following tables, 1 through 7, compare farm-mortgage lending activity of the 3 lender groups for selected periods of 1965 and 1966.

Table 1.--Life insurance companies: Farm-mortgage loans, 20 companies, United States, Jan. 1, 1965-June 30, 1966

Item	6 months ending--			Percentage change, 6 months ending--	
	June 30, 1965	Dec. 31, 1965	June 30, 1966	June 30, 1965, and June 30, 1966	Dec. 31, 1965, and June 30, 1966
<u>Beginning of Period</u>				<u>Percent</u>	<u>Percent</u>
Mortgages owned:					
Number-----	193,266	192,924	191,952	-0.7	-0.5
Principal indebtedness:					
Total-----1,000 dollars--	4,016,539	1/4,285,939	1/4,516,121	12.4	5.4
Average-----dollars--	20,780	22,220	23,530	13.2	5.9
<u>During Period</u>					
Mortgages acquired:					
Number-----	10,439	7,146	9,763	-6.5	36.6
Principal indebtedness:					
Total 2/--1,000 dollars--	450,815	344,097	512,737	13.7	49.0
Average 3/-----dollars--	35,780	42,100	45,520	27.2	8.1
Increase in principal of mortgages already owned 3/-----1,000 dollars--	85,793	66,430	93,394	8.9	40.6
Payments on principal of mortgages:					
Mortgages paid in full:					
Number-----	10,757	8,087	10,482	-2.6	29.6
Amount:					
Total 4/-1,000 dollars--	158,090	106,191	165,095	4.4	55.5
Average 5/-----dollars--	13,530	11,980	13,160	-2.7	9.8
Other 5/-----1,000 dollars--	108,833	73,892	120,011	10.3	62.4
Total-----do-----	266,923	180,083	285,106	6.8	58.3
Percentage of prin- cipal indebtedness, beginning of period----	6.6	4.2	6.3	---	---
Mortgages on farm properties acquired by foreclosure and voluntary conveyance:					
Number-----	1	3	3	200.0	0
Principal indebtedness:					
Total-----1,000 dollars--	315	208	33	-89.5	-84.1
Average-----dollars--	315,000	69,330	11,000	-96.5	-84.1
<u>End of Period</u>					
Mortgages owned:					
Number 6/-----	192,924	191,952	191,206	-.9	-.4
Principal indebtedness:					
Total-----1,000 dollars--	7/4,285,910	7/4,516,176	4,837,113	12.9	7.1
Average-----dollars--	22,220	23,530	25,300	13.9	7.5

Table 1.--Life insurance companies: Farm-mortgage loans, 20 companies, United States, Jan. 1, 1965-June 30, 1966 -Continued

Item	6 months ending--			Percentage change,	
				6 months ending--	
	June 30, 1965	Dec. 31, 1965	June 30, 1966	June 30, 1965, and June 30, 1966	Dec. 31, 1965, and June 30, 1966
End of Period -Continued				Percent	Percent
Mortgages in process of foreclosure:					
Number-----	77	57	62	-19.5	8.8
Percentage of total-----	8/	8/	8/	---	---
Principal indebtedness-----1,000 dollars-	2,490	1,861	3,364	35.1	80.8
Percentage of total-----	.1	8/	.1	---	---
Mortgages with interest overdue more than 3 months:					
Number-----	566	190	447	-21.0	135.3
Percentage of total-----	.3	.1	.2	---	---
Principal indebtedness-----1,000 dollars-	18,900	6,627	17,902	-5.3	170.1
Percentage of total-----	.4	.1	.4	---	---
Mortgage-loan commitments during period:					
Number-----	14,023	11,508	12,025	-14.2	4.5
Amount:					
Total-----1,000 dollars-	613,625	593,621	618,351	.8	4.2
Average-----dollars-	43,760	51,580	51,420	17.5	-.3

1/ Because of consolidation and/or splitting of loans there was a net increase of \$29,000 from the amount reported June 30, 1965, and a net decrease of \$55,000 from the amount reported December 31, 1965.

2/ Includes increase in principal indebtedness of mortgages already owned for 2 companies.

3/ 18-company data; excludes the 2 companies that did not separate principal of farm mortgages acquired and increase in principal of mortgages already owned.

4/ Includes principal payments on farm mortgages not paid in full for 2 companies.

5/ 18-company data; excludes the 2 companies that did not separate principal payments on mortgages paid in full from payments on other mortgages not paid in full.

6/ Because of consolidation and/or splitting of loans there was a net decrease of 23 loans in the first 6 months and 28 loans in the last 6 months of 1965, respectively, and a net decrease of 24 loans in the first 6 months of 1966.

7/ Because of consolidation and/or splitting of loans there was a net increase of \$1,000 in the first 6 months and last 6 months of 1965, respectively.

8/ Less than 0.05 percent.

Table 2.--Life insurance companies: Purposes of farm-mortgage-loan commitments, 19 companies, United States, Jan. 1, 1965-June 30, 1966

Item	6 months ending--		
	June 30, 1965	Dec. 31, 1965	June 30, 1966
	<u>1,000 dollars</u>	<u>1,000 dollars</u>	<u>1,000 dollars</u>
Amount of commitments-----	613,554	593,603	618,351
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Percentage of total funds committed for--			
Farm real estate purchases---	34.9	39.7	39.6
Refinancing: <u>1/</u>			
Mortgages held by--			
Own company-----	24.6	19.7	19.7
Others-----	8.6	8.1	7.5
Total-----	33.2	27.8	27.2
Other indebtedness-----	15.8	15.7	17.2
Total refinancing---	49.0	43.5	44.4
Repairs and improvements to land and buildings-----	7.3	8.4	6.3
Other purposes:			
Known-----	8.7	8.3	9.7
Unknown-----	.1	.1	<u>2/</u>
All purposes-----	100.0	100.0	100.0

1/ Distribution between mortgages held by own company and by others estimated for 2 companies before 1966 and 3 companies beginning 1966.

2/ Less than 0.05 percent.

Table 3.--Life insurance companies: Interest rates on farm-mortgage-loan commitments, Jan. 1-June 30, 1966 1/

Interest rate	Loans		Amount		Average size of loan
	Number	Percentage distribution	Total	Percentage distribution	
		Percent	Dollars	Percent	Dollars
5 1/2 percent or less-----	341	6.1	12,780,935	4.5	37,480
5 3/4 percent-----	1,671	30.1	67,991,013	24.1	40,690
6 percent-----	2,610	46.9	145,809,994	51.7	55,870
6 1/4 percent-----	549	9.9	31,858,766	11.3	58,030
6 1/2 percent-----	371	6.7	22,941,327	8.1	61,840
6 3/4 percent and over-----	15	.3	789,100	.3	52,610
Total or average-----	5,557	100.0	282,171,135	100.0	50,780

1/ The weighted average interest rate based on 7,142 loans and a total amount committed of \$363,468,370 is 6.022 percent. 2 companies did not report interest rates. The weighted average interest rates for the first half and second half of 1965 were 5.740 and 5.818 percent, respectively.

Table 4.--Federal land banks: Farm-mortgage loans, United States, Jan. 1, 1965-June 30, 1966 1/

Item	6 months ending--			Percentage change, 6 months ending--	
	June 30, 1965	Dec. 31, 1965	June 30, 1966	June 30, 1965, and June 30, 1966	Dec. 31, 1965, and June 30, 1966
<u>Beginning of Period</u>				<u>Percent</u>	<u>Percent</u>
Loans outstanding: <u>2/</u>					
Number-----	380,640	384,330	384,246	0.9	<u>3/</u>
Principal indebtedness:					
Total-----1,000 dollars--	3,718,169	4,057,524	4,280,675	15.1	5.5
Average-----dollars--	9,770	10,560	11,140	14.0	5.5
<u>During Period</u>					
Loans made: <u>4/</u>					
Number-----	32,308	26,095	33,701	4.3	29.1
Principal indebtedness:					
Total-----1,000 dollars--	688,730	546,423	825,803	19.9	51.1
Average-----dollars--	21,320	20,940	24,500	14.9	17.0
New money					
loaned <u>5/</u> -----1,000 dollars--	497,105	390,029	616,538	24.0	58.1
Other increases: <u>6/</u>					
Number-----	57	31	34	-40.4	9.7
Amount:					
Total-----1,000 dollars--	1,210	780	1,165	-3.7	49.4
Decreases:					
Principal repayments: <u>7/</u>					
Total-----1,000 dollars--	157,872	166,992	172,407	9.2	3.2
Percentage of unpaid principal, beginning of period-----	4.2	4.1	4.0	---	---
Other: <u>8/</u>					
Number-----	16,395	13,500	15,888	-3.1	17.7
Amount:					
Total---1,000 dollars--	192,713	157,060	210,275	9.1	33.9
Average-----dollars--	11,750	11,630	13,230	12.6	13.8
Paid in full:					
Number-----	12,280	12,710	12,349	.6	-2.8
Farm properties acquired by foreclosure and voluntary conveyance:					
Number-----	4	4	5	25.0	25.0
Principal indebtedness:					
Total-----1,000 dollars--	47	39	82	74.5	110.3
Average-----dollars--	11,750	9,750	16,400	39.6	68.2

Table 4.--Federal land banks: Farm-mortgage loans, United States, Jan. 1, 1965-June 30, 1966 1/ -Continued

Item	6 months ending--			Percentage change, 6 months ending--	
	June 30, 1965	Dec. 31, 1965	June 30, 1966	June 30, 1965, and June 30, 1966	Dec. 31, 1965, and June 30, 1966
End of Period				Percent	Percent
Loans outstanding: <u>2/</u>					
Number-----	384,330	384,246	389,744	1.4	1.4
Principal indebtedness:					
Total-----1,000 dollars--	4,057,524	4,280,675	4,724,961	16.4	10.4
Average-----dollars--	10,560	11,140	12,120	14.8	8.8
Delinquent or extended: <u>9/</u>					
Number-----	12,389	16,660	11,136	-10.1	-33.2
Percentage of total----	3.2	4.3	2.9	---	---
Matured principal unpaid:					
Total---1,000 dollars--	3,753	6,041	3,824	1.9	-36.7
Average-----dollars--	300	360	340	13.3	-5.6
Called for foreclosure:					
Number-----	139	112	101	-27.3	-9.8
Principal indebtedness:					
Total---1,000 dollars--	1,520	1,363	1,305	-14.1	-4.3
Average-----dollars--	10,940	12,170	12,920	18.1	6.2
Farm properties owned:					
Number-----	7	8	5	-28.6	-37.5
Principal indebtedness:					
Total-----1,000 dollars--	89	111	61	-31.5	-45.0
Average-----dollars--	12,710	13,880	12,200	-4.0	-12.1

1/ Includes Puerto Rico, Alaska, and Hawaii.

2/ Excludes loans called for foreclosure.

3/ Minus less than 0.05 percent.

4/ Gross number and amount of all loans made including new loans which replaced old loans, and loans canceled prior to disbursement of loan proceeds.

5/ New money is included in principal indebtedness of loans made.

6/ Increase in number or amount of loans, or both, by reason of reamortization, reinstatements, and so on.

7/ Consists of principal matured and paid in advance, special principal payments and loans paid off prior to maturity, plus net decrease or minus net increase in principal matured and unpaid during period. Principal matured and unpaid was \$3,752,857 on June 30, 1965, \$6,040,509 on December 31, 1965, and \$3,824,197 on June 30, 1966.

8/ Includes loans replaced by new loans, loans canceled by deed and called for foreclosure, and loans divided.

9/ Loans are classified as delinquent on the next day after the installment payment became due.

Farm Credit Administration - Accounting and Budget Division.

Table 5.--Federal land banks: Interest rates charged by districts,
June 30, 1966

District	Rate	Effective date
	<u>Percent</u>	
Springfield-----	<u>1/</u> 5.50	Feb. 1, 1965
Baltimore-----	<u>2/</u> 5.50	Sept. 16, 1963
Columbia-----	<u>2/</u> 5.50	July 1, 1961
Louisville-----	5.50	Jan. 1, 1961
New Orleans-----	6.00	June 23, 1966
St. Louis-----	6.00	June 26, 1966
St. Paul-----	6.00	June 24, 1966
Omaha-----	6.00	June 21, 1966
Wichita-----	6.00	Apr. 22, 1966
Houston-----	5.50	Mar. 1, 1966
Berkeley-----	6.00	June 24, 1966
Spokane-----	6.00	June 13, 1966

1/ New loans are written at 5.75 percent; borrowers are currently charged 5.50 percent.

2/ New loans are written at 6 percent; borrowers are currently charged 5.50 percent.

Note.--Beginning July 1, 1966, rates charged in the Columbia, Louisville, and Houston Districts were increased to 6.00 percent. On July 21, 1966, and September 16, 1966, the rates charged in the Springfield District and the Baltimore District, respectively, were increased to 6.00 percent.

Farm Credit Administration.

Table 6.--Farmers Home Administration: Direct farm-ownership and rural-housing loans, United States, Jan. 1, 1965-June 30, 1966 ^{1/}

Item	6 months ending--			Percentage change, 6 months ending--	
	June 30,	Dec. 31,	June 30,	June 30,	Dec. 31,
	1965	1965	1966	1965, and 1966	1965, and 1966
<u>Beginning of Period</u>				<u>Percent</u>	<u>Percent</u>
Mortgages owned:					
Number-----	105,132	111,200	117,647	11.9	5.8
Principal indebtedness-----1,000 dollars--	908,126	965,132	1,012,872	11.5	4.9
<u>During Period</u>					
Mortgages acquired:					
Number-----	8,865	9,127	3,629	-59.1	-60.2
Principal indebtedness-----1,000 dollars--	87,644	74,386	18,118	-79.3	-75.6
Increase in principal of mortgages already owned-----1,000 dollars--	4,767	3,134	847	-82.2	-73.0
Payments on principal of mortgages:					
Mortgages paid in full:					
Number-----	2,763	2,613	3,423	23.9	31.0
Amount-----1,000 dollars--	17,932	15,649	21,597	20.4	38.0
Other-----do-----	17,204	13,655	19,130	11.2	40.1
Total-----do-----	35,136	29,304	40,727	15.9	39.0
Percentage of principal indebtedness, beginning of period-----	3.9	3.0	4.0	---	---
Mortgages on farm properties acquired by foreclosure and voluntary conveyance:					
Number-----	34	67	24	-29.4	-64.2
Principal indebtedness-----1,000 dollars--	269	476	162	-39.8	-66.0
<u>End of Period</u>					
Mortgages owned:					
Number-----	111,200	117,647	117,829	6.0	.2
Principal indebtedness-----1,000 dollars--	965,132	1,012,872	990,948	2.7	-2.2
Mortgages behind schedule in regard to amortization payments:					
Number-----	4,534	3,307	4,861	7.2	47.0
Percentage of total-----	4.1	2.8	4.1	---	---
Principal indebtedness-----1,000 dollars--	43,302	32,655	45,802	5.8	40.3
Percentage of total-----	4.5	3.2	4.6	---	---
Mortgages in process of foreclosure:					
Number-----	74	76	89	20.3	17.1
Percentage of total-----	.1	.1	.1	---	---
Principal indebtedness-----1,000 dollars--	853	910	1,018	19.3	11.9
Percentage of total-----	.1	.1	.1	---	---
Mortgage-loan commitments during period: ^{2/}					
Farm-ownership loans: ^{3/}					
Number-----	2,278	403	192	-91.6	-52.4
Amount:					
Total-----1,000 dollars--	36,663	5,366	2,742	-92.5	-48.9
Average-----dollars--	16,090	13,320	14,280	-11.2	7.2
Rural-housing loans: ^{4/}					
Number-----	7,826	6,464	3,360	-57.1	-48.0
Amount:					
Total-----1,000 dollars--	65,863	45,351	10,343	-84.3	-77.2
Average-----dollars--	8,420	7,020	3,080	-63.4	-56.1

^{1/} Data for 48 States only. Includes loans on rural nonfarm residences. Separate data for farm-ownership and rural-housing loans are available upon request. ^{2/} Initial loans obligated. ^{3/} The interest rate on these loans is 5 percent except forestry loans which are 3 percent. ^{4/} The interest rate on these loans is 4 percent except for loans in emergency areas and for low income housing which are 3 percent.

Farmers Home Administration.

Table 7.--Farmers Home Administration: Purposes of farm-mortgage-loan commitments, direct farm-ownership loans, United States,
July 1-June 30, 1963-66 1/

Item	: : July 1, 1963: : to June 30, : 1964	: : July 1, 1964: : to June 30, : 1965	: : July 1, 1965: : to June 30, : 1966
	: : <u>Percent</u>	: : <u>Percent</u>	: : <u>Percent</u>
Percentage of total funds committed for--			
Farm real estate purchases-----	50	43	48
Refinancing:			
Mortgages held by--			
Farmers Home Administration-----	0	0	0
Other-----	24	32	18
Total-----	24	32	18
Other indebtedness-----	5	5	5
Total refinancing-----	29	37	23
Repairs and improvements to land and buildings-----	20	19	28
Other purposes:			
Known-----	1	1	1
Unknown-----	0	0	0
All purposes-----	100	100	100

1/ Data for 48 States only.

Farmers Home Administration.